

VZCZCXRO6400  
RR RUEHCHI RUEHDT RUEHHM  
DE RUEHGO #0778/01 1640238  
ZNR UUUUU ZZH  
R 130238Z JUN 06  
FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC 4670  
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS  
RUEHBJ/AMEMBASSY BEIJING 0935  
RUEHBY/AMEMBASSY CANBERRA 9708  
RUEHKA/AMEMBASSY DHAKA 4196  
RUEHLO/AMEMBASSY LONDON 1652  
RUEHNE/AMEMBASSY NEW DELHI 3378  
RUEHUL/AMEMBASSY SEOUL 6804  
RUEHKO/AMEMBASSY TOKYO 4419  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 RANGOON 000778

SIPDIS

STATE FOR EAP/MLS; EB/TPP  
TREASURY FOR OASIA: AJEWELL

SIPDIS

SENSITIVE

E.O. 12958: N/A  
TAGS: [ECON](#) [ETRD](#) [PGOV](#) [BM](#)  
SUBJECT: BURMA BUSINESS REPS PESSIMISTIC ABOUT FUTURE

REF: A) RANGOON 762, B) RANGOON 456

11. (SBU) Summary: At a recent meeting with visiting EAP/MLS Director Scot Marciel, Burmese business representatives described the many challenges they face in the current business environment, including multiple exchange rates, lengthy bureaucratic delays, constant power shortages, rising costs, and a collapsing educational system. Although they are among Burma's more successful entrepreneurs, they will not be able to unleash the country's rich potential without a dramatic shift in economic policy-making. End summary.

#### The High Cost of Cheap Labor

12. (SBU) On June 2, Scot Marciel, EAP/MLS Director, met with leading business representatives to discuss the overall economic situation. Than Lwin, a consultant for KBZ Bank and former Vice-Governor of the Central Bank of Myanmar, acknowledged that the country's pervasive economic problems stem from the political situation. He estimated that the average cost of living for a family in Rangoon is about K.50,000 (\$40 at current market exchange rates) per month, or \$480 annually. Business reps said they paid their employees an average of K.20-25,000/month (less than \$20). In January, annual per capita income for a mid-rank public official in Rangoon was equivalent to \$183. The huge rise in government salaries in April 2006 (ref B) may help more civil servants make ends meet, but further squeezes the bottom line of private companies expected to match the unprecedented increase for their workers.

13. (SBU) Aung Khin Myint said that the government counts on the Chinese to invest in new industrial zones to take advantage of cheap Burmese labor costs. Garment factory owner Julia Chung said Burma's lower labor cost is the main reason her plant continues to receive garment orders from Europe, but added that she recently increased the basic salary of her workers because of the increase in government salary scales. Aung Khin Myint mentioned that his employees, like most other private sector workers, also demanded salary increases. The business reps acknowledged that productivity levels in Burma are low and unlikely to change in the near term. Reinforcing the impression of continuing economic decline and tougher times for individuals, the business reps said they had begun serving

lunch or snacks to their employees to keep their productivity up. When they had paid meal money, they noticed that their workers were not eating lunch and visibly weakened over the course of the day.

#### Which Exchange Rate?

-----

¶4. (SBU) Dr. Maung Maung Lay, Executive of the Chamber of Commerce and a major importer of medicines and medical equipment, discussed business problems caused by Burma's multiple exchange rates: the official rate (K6/\$1), market rate (currently K.1275/\$1), transfer rate (1245/\$1), FEC rate (K.1245/\$1), export earnings rate (K.1280/\$1), and the exchange counter rate (K.450/\$1). Than Lwin noted that for decades, since the time of General Ne Win, regime leaders have ignored bankers' advice to adjust the exchange rate. Business reps were unable to analyze the impact of multiple exchange rates when questioned by Marciel, and expressed embarrassment that the current system had been in place so long that none understood its full economic effects.

#### Disrupting Trade

-----

¶5. (SBU) Business reps also described increased delays in the import/export application process due to the recent closure of Commerce Ministry offices in Rangoon (ref A). Starting June 1, traders must submit all import/export applications in the new capital of Naypyitaw (Pyinmana), and authorities will allow only one employee of each company to receive an identification badge necessary for access to the new government offices. Brokers who traditionally handled this business for multiple companies can no longer provide the service, increasing expenses and

RANGOON 00000778 002 OF 002

hardships for companies. Aung Khin Myint, whose company manufactures bakery products, expressed hope that GOB attempts to tighten cross-border trade might reduce the current high volume of smuggling that brings in cheaper goods to compete with his domestic production. Charge pointed out that, based on experience, tighter controls and corrupt officials usually combined to drive even more trade underground.

#### Who Turned Out the Lights?

-----

¶6. (SBU) The business reps unanimously agreed that the country's power situation was very bad and getting worse. Most of them rely heavily on generators and pass on most of the increased fuel costs to their customers, further raising the inflation rate. They agreed that they would be willing to pay higher electricity charges for reliable 24-hour supply. GOB officials regularly predict that the country's power situation will improve when new projects come on line in 2007-08, but most Rangoon residents agree that the outages this year have been the worst in decades.

#### World's Shortest School Year

-----

¶7. (SBU) The business leaders also discussed declining educational levels. Dr. Thaung Han, who runs a trading company, said university education is very poor, especially since the regime relocated most universities to remote areas with minimal transportation links. He gave the example of Mandalay University students who must row boats to reach their classes in the rainy season. Many students now can only study via "distance learning," which, due to Burma's lack of modern communications, means lessons by mail. Course materials often do not reach students until just before exam time. Students then travel to the remote university locations to attend the required thirty days of classes before taking their final exams.

¶8. (SBU) According to a former GOB education supervisor, teachers are encouraged to give students passing grades despite poor performance. The regime recently banned the

common practice of teachers earning extra money by providing private tuition classes after school hours, which not only deprives teachers of critical added income, but also sharply reduces the amount of education that many children now receive.

19. (SBU) Comment: These Burmese business representatives are among the most successful non-crony entrepreneurs in Rangoon. They know the local situation and its challenges well, but lack substantive knowledge about international economics, finance and trade. The regime's self-imposed isolation, devastated educational system, irrational economic policies, and propaganda have made Burma uncompetitive in comparison to its neighbors. So Burma falls further behind, while its neighbors make impressive advances. We provide information to these progressive business reps to broaden their knowledge of outside developments, but it will take dramatic economic reforms before they will be able to apply the lessons learned so that Burma can begin growing again and reach its rich potential. End comment.  
STOLTZ